APPENDIX.

Extracts From Regulations No. 7 (1937) Relative to the Production, Fortification Tax Payment, Etc. of Wine, Promulgated by the United States Treasury Department, Bureau of Internal Revenue.

"Article XXXIV.—Losses.

"PAR. 172. Claims for losses.—Proprietors of bonded wineries and bonded storerooms will claim credit in their winery or storeroom accounts, Forms 702, 702-A, and 702-B, for losses of wines in bond only when it is ascertained that losses have been sustained and only for such quantities as are known to have been lost.

"PAR. 173. Inventories.—Each proprietor of a bonded winery or bonded storeroom will take an inventory of all wines on storage on June 30 and December 31 of each year, and will enter on his winery or storeroom accounts, Forms 702, 702-A, and 702-B, for those months the losses disclosed by such inventories. Additional inventories may be taken at such other times as the proprietor may desire and the losses disclosed thereby entered on the wine or storeroom accounts. Losses by fire or other casualty, or any other extraordinary or unusual losses, will be reported to the district supervisor immediately after they occur. Credit may also be claimed for such other losses as are actually ascertained to have been sustained, but no credit may be claimed for estimated losses. When an inventory is taken, such fact should be noted on Forms 702, 702-A, and 702-B.

"PAR. 174. Losses at wineries and storerooms.—Where the losses at a bonded winery or bonded storeroom during any fiscal year, beginning July 1 and ending June 30,

exceed 3 per cent of the aggregate quantity of wine on hand at the beginning of the fiscal year and received in bond during the fiscal year, and 6 per cent of the wine produced at a bonded winery by fermentation, or vermouth manufactured, during the fiscal year, or when requested by the district supervisor, the winemaker or proprietor of a bonded storeroom must file with the district supervisor for his district, within 30 days after the close of the fiscal year, an application under oath for remission of the tax on the entire loss, and set out therein all the material facts relating to the loss, and particularly the nature, cause, and extent of the loss. The application will also state the quantity of wine destroyed for which special allowance was made. Applications must be prepared by or at the direction of the proprietor or his duly authorized agent.

"PAR. 175. Percentage of loss allowed.—The percentage of wine lost will be calculated by fiscal years, beginning July 1 and ending June 30, and will be based on the quantity of wine on hand at the beginning of the fiscal year plus the quantity received and produced during the fiscal year. The percentage of loss from each taxable class of wine will be calculated separately, unless there has been a mixture of different classes during the fiscal year, in which case the percentage of loss will be calculated on the aggregate quantity. Losses of vermouth will be determined separately. The allowances above provided will apply to the losses of each fiscal year separately and will not be cumulative.

"PAR. 176. Cause of loss.—The nature, cause, and extent of the loss must be stated specifically and in sufficient detail to disclose all the material facts and circumstances surrounding the loss. Where the loss is due to

leakage, the cause of the leakage must be stated; where due to racking, the quantity of wine racked and the time of racking should be given; where due to excessive evaporation, the cause therefor should be set out fully; where due to baking of wine, all of the information required to be entered on the record prescribed by paragraph 85 must be furnished. The particulars of losses from other causes should be given in like manner. Where possible to do so, the loss from each tank or package should be explained separately.

"PAR. 177.—Losses of wine in making vermouth.—Where losses of sweet wine transferred to the vermouth department and the losses of such wine in the process of manufacturing vermouth appear to be excessive, the district supervisors will make such investigation, or require such evidence to be submitted, as may be deemed necessary and will advise the Commissioner of their findings and recommendations relative to allowance or disallowance of the loss.

"PAR. 178. Losses in transit.—Where the loss of wine in transit from any package, case, cask, or tank car shipped in bond exceeds 1 per cent (2 per cent on transcontinental shipments) of the quantity so shipped therein, the proprietor of the winery or storeroom from which the wine is shipped must file with the district supervisor for his district, within 30 days after the shipment is received at destination or is ascertained to have been lost, an application under oath for remission of the tax on the entire loss, setting out therein all the material facts relating to the loss and particularly the nature, cause, and extent of the loss. The application should be supported by statements of proper railroad officials, or affidavits of

the consignee or other parties, having personal knowledge of the loss. If the loss does not exceed 1 per cent (2 per cent on transcontinental shipments) from any package, application for the allowance of such loss will not be required, provided there are no circumstances indicating that the wine lost, or any part thereof, was unlawfully removed.

"PAR. 179. Insurance.—Each application covering losses by casualty or in transit must state whether the proprietor has been or will be indemnified for the tax on the wine lost. Allowance will not be made for losses where the proprietor is so indemnified.

"PAR. 180. District supervisor's examination.—When an application for remission of tax is filed with the district supervisor, he will carefully examine it and cause such investigation to be made, or require such additional evidence to be submitted, as he may deem necessary, and will forward the application to the Commissioner, together with a statement setting out his recommendation and his reasons therefor, as expeditiously as possible. Where large or excessive losses from casualty or other cause are reported, district supervisors will, upon receipt of such report, immediately make such investigation or require such evidence to be submitted as may be deemed necessary and will advise the Commissioner of their findings and recommendations relative to allowance or disallowance of the loss.

"PAR. 181. Action by Commissioner.—The Commissioner will make such allowances for unavoidable loss of wines while in storage or in transit as in his judgment may be just and proper. District supervisors will carry

all items of loss in bonded wineries and bonded storerooms in their bonded accounts, Forms 733, 733-A, and 733 marked 'Vermouth Account,' as not allowed until the tax is paid on the loss or they are advised by the Commissioner that the loss has been allowed. Tax must be paid on all wines removed contrary to law while stored in a bonded winery or bonded storeroom or in transit in bond regardless of the per cent of loss.

"Article XXXV.—Destruction of Spoiled Wines.

"PAR. 182. Destruction witnessed by officer.—Wine which has unavoidably so soured and spoiled as to be unfit for use as wine may be destroyed without payment of tax, but the destruction thereof must be witnessed in each instance by an officer detailed to such duty by the district supervisor.

"PAR. 183. Notice to district supervisor.—When the proprietor of a bonded winery or bonded storeroom desires to destroy spoiled wine in order to be relieved of tax liability thereon, he will advise the district supervisor as to the approximate quantity of wine which he desires to destroy, and will request that an officer be detailed to inspect the wine and witness the destruction thereof. Where the quantity to be destroyed is in excess of 500 gallons, or 100 bottles if champagne, sparkling or artificially carbonated wine, the proprietor should accompany his request to the district supervisor with a sworn statement setting forth fully the condition of the wine and the cause of spoilage. The district supervisor will thereupon detail an officer to inspect the wine and witness the destruction thereof at the earliest practicable date as hereinafter provided.

"PAR. 184. Inspection by officer.—The officer detailed to this duty will carefully inspect the wine; and if he is satisfied from his inspection that the wine has so spoiled from unavoidable cause as to be unfit for use as wine, and if there are no circumstances indicating that the wine has been tampered with through the removal of the original content and the substitution of water or other liquid in lieu thereof, he will permit the destruction of the wine in his presence, provided the quantity to be destroyed is not in excess of 500 gallons, or 100 bottles if champagne, sparkling or artificially carbonated wine.

"PAR. 185. Samples.—If there are circumstances indicating that the wine may have been tampered with through the removal of the original contents and the substitution of water or other liquid in lieu thereof, or if the quantity to be destroyed is in excess of 500 gallons, or 100 bottles if champagne, sparkling or artificially carbonated wine, the officer will take a sample from each package or bulk container of the wine which it is desired to destroy, which he will submit to the nearest Bureau branch laboratory for analysis. After samples are taken therefrom packages and bulk containers will be sealed by the officer. A sufficient number of samples of champagne, sparkling or artificially carbonated wine, to be truly representative of the entire lot to be destroyed should be taken.

"PAR. 186. Test for alcohol and acids.—The chemist will test the wine for both alcohol and acids and examine it for other cause of spoilage, and will state in his report whether the wine is unfit for use as such. Where the analysis indicates that the wine has been tampered with, the chemist will so state in his report. If the chemical analysis of the samples shows the material to be unfit

for use as wine and to contain 6 per cent or more of alcohol and acids combined, by volume, the district supervisor may authorize the wine to be destroyed in the presence of the officer. Wine so destroyed will not be included with other losses in calculating the per cent of loss under paragraphs 174 and 175.

"PAR. 187. Explanation required.—If the analysis shows the wine to contain less than 6 per cent of alcohol and acids combined, by volume, destruction without payment of tax will not be permitted unless the low alcoholic content is satisfactorily explained by affidavit to the district supervisor. Neither will destruction without payment of tax be authorized where it is found that the wine has spoiled through the failure of the proprietor to use reasonable diligence.

"PAR. 188. Officer's report.—Officers supervising the destruction of spoiled wines will measure the wine before authorizing destruction and will state in their reports the quantity destroyed, the condition of the wine, and the apparent cause of spoilage. District supervisors will promptly forward a full report of their findings and action taken in each case, together with a copy of the chemist's report of analysis, to the Commissioner.

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"Article XXXVIII.—District Supervisor's Accounts.

"PAR. 201. Monthly accounts.—District supervisors will render monthly accounts on Forms 733 and 733-A of transactions at bonded wineries and bonded storerooms. Form 733 will be used for still wines, Form 733-A for champagne, sparkling wine, and artificially carbonated

wine, and Form 733 marked 'Vermouth Account' for vermouth. These accounts will be prepared from data obtained from Forms 702, 702-A, and 702-B rendered by the proprietors of bonded wineries and bonded storerooms.

"PAR. 202. Unaccounted for items.—Still wine and vermouth shipped to other bonded premises will be carried as unaccounted for until Form 702, 702-B, or 703 is received showing that the wine has been received at the premises to which shipped. Wine shipped for export will likewise be carried as unaccounted for until Form 711 and bill of lading are received showing exportation of the wine. Losses in transit will be carried as not allowed until the same are allowed by the Commissioner or the tax is paid thereon.

"PAR. 203. Losses reported.—The quantity of spoiled wines destroyed in the presence of Government officers in accordance with Article XXXV, and the quantity of lees destroyed or removed in accordance with Article XXXVI, will be reported as loss. Where there is no evidence or circumstances indicating that the wines were tampered with through removal of the original content and the substitution of water or other liquid in lieu thereof, credit may be taken for such items as loss allowed on storage.

"PAR. 204. Accounts in duplicate.—District supervisors' monthly accounts will be prepared in duplicate and by States within the district. One copy will be retained by the district supervisor and one copy forwarded on or before the last day of the month succeeding that for which rendered, to the Commissioner, together with copies of Forms 701, 702, 702-A, and 702-B."